

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR THE
INFLATION-LINKED ASSET CLASS**

February 19, 2008

This Policy is effective upon adoption and supersedes all previous policies on inflation-linked assets, commodities, inflation-linked bonds, infrastructure, and forestland (timber).

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the Inflation Linked Asset Class ("IL Asset Class" or "Program"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the Program. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

The Program includes four components: commodities, inflation-linked bonds, infrastructure, and forestland. The Policy includes investment guidelines for the Program structure followed by an attachment for each component.

II. STRATEGIC OBJECTIVE

The Program shall be managed to accomplish the following:

- A. Prudently achieve long-term returns above inflation;
- B. Diversify CalPERS investments; and
- C. Hedge against inflation risks.

III. RESPONSIBILITIES

- A. CalPERS' Investment Staff ("Staff") is responsible for the following:

1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
2. Reporting to the Committee quarterly or more frequently if needed about the performance of the Program.
3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report material concerns and all Policy violations in a timely manner and in writing to the Committee. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

The Asset Allocation unit will be responsible for the Program, though it may delegate investment management of Program assets to either external managers or other internal units.

- B. The General Consultant ("Consultant") is responsible for:

Monitoring, evaluating, and reporting periodically to the Committee, on the performance of the Program relative to the benchmark and Policy.

- C. For those programs that are managed by an External Manager ("Manager"), the Manager is responsible for all aspects of portfolio management as set forth in each Manager's contract with CalPERS and shall, at a minimum, fulfill the following duties:

1. Communicate with Staff as needed regarding investment strategy and investment results.
2. Monitor, analyze, and evaluate performance relative to the agreed upon benchmark.
3. Cooperate fully with CalPERS' Staff, Custodian, and consultant assigned to the Program concerning requests for information.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

- A. Benchmarks for the Program and for each of the four components are listed in Table 1 below:

Table 1. Program Benchmarks

<u>Component</u>	<u>Benchmark Index</u>
Commodities	GSCI-TR
Inflation-linked bonds	ILB Custom Index
Infrastructure	CPI + 5%
Forestland	CPI + 5%
Program (IL Asset Class)	CPI + 4%

GSCI-TR = S&P GSCI Total Return Index.
 ILB Custom Index = 67% Lehman Total U.S. TIPS Index + 33% Custom Lehman Global Inflation Linked Bond Index ex TIPS, unhedged.
 CPI = Prior month trailing 12-month U.S. Consumer Price Index, all urban consumers, not seasonally adjusted.

- B. The performance objective is to outperform the Program benchmark, net of all fees, over rolling five-year periods.

V. INVESTMENT APPROACHES AND PARAMETERS

A. IL Asset Class Program Allocations

Program allocation targets and ranges are listed in Table 2 below. Allocations are expressed as a percentage of the market value of the CalPERS fund.

Table 2: Program Allocations

<u>Component</u>	<u>Target*</u>	<u>Range*</u>
Commodities	1.5%	0.50% - 3.00%
Inflation-linked bonds	1.0%	0.50% - 3.00%
Infrastructure	1.5%	0.00% – 3.00%
Forestland	<u>1.0%</u>	<u>0.00% – 2.00%</u>
IL Asset Class	5.0%	0.00% - 5.00%

* percentage of the CalPERS Fund.

The allocation ranges in Table 2 will apply when the market value of Program assets equals or exceeds two percent of the CalPERS fund.

B. Prohibited Investments

Ineligible investments include the following:

1. Tobacco companies; and
2. Any investment prohibited by CalPERS' Insider Trading Policy or Restricted Company list.
3. Any other Committee-approved restriction

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' Custodian.

VII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS' Master Glossary of Terms.

Approved by the Policy Subcommittee: December 14, 2007

Adopted by the Investment Committee: February 19, 2008

Asset Class Glossary: Inflation-Linked Asset
Policy: Inflation-Linked Asset Class
April 21, 2008

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

External Manager

An outside money management firm retained under contract by CalPERS.

General Consultant

An individual or organization that provides specialized professional assistance to the CalPERS Board of Administration in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with CalPERS' long-term pension liabilities.

Risk

A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as